

HARDING CARPETS 1970

Forty-third Annual Report

DIRECTORS AND OFFICERS

DIRECTORS

JOHN D. CAMPBELL, Hamilton Director—Canadian Liquid Air Limited

FRANCOIS E. CLEYN, Huntingdon, P.Q. Chairman of the Board and Chief Executive Officer—Cleyn & Tinker, Ltd.

ALBERT DAVIDSON, C.A., Brantford President—Harding Carpets Limited

J. DOUGLAS GIBSON, O.B.E., Toronto Financial Consultant

C. MALIM HARDING, O.B.E., Toronto Chairman of the Board and Chief Executive Officer—Harding Carpets Limited JOHN D. HARRISON, Q.C., London Partner—Harrison, Elwood, Gregory, Littlejohn & Fleming

FRANK D. LACE, D.S.O., O.B.E., Toronto President—Matthews & Company Limited

HUGH J. McLAUGHLIN, Q.C., Toronto *Partner*—McLaughlin, May, Soward, Morden & Bales

WILLIAM H. YOUNG, Hamilton

President—The Hamilton Group Limited

OFFICERS

C. MALIM HARDING
Chairman of the Board and
Chief Executive Officer

ALBERT DAVIDSON *President*

HUGH J. McLAUGHLIN Vice-President

ERNEST C. CARTER *Vice-President*

PHILIP L. GUIT
Vice-President, Manufacturing

ALBERT F. KLINKHAMMER *Vice-President, Administration*

GORDON H. BROWN Secretary

GERALD A. MURRAY *Treasurer*

Head Office—Brantford, Ontario

Marketing Office—Toronto, Ontario

Stock Exchange Listings—Montreal, Toronto & Vancouver

Transfer Agent and Registrar-

Montreal Trust Company

Toronto, Montreal, Regina, Calgary & Vancouver

Bankers—The Royal Bank of Canada

The Toronto-Dominion Bank

Shareholders' Auditors—Price Waterhouse & Co.

The Annual Meeting of Shareholders will be held on February 9th, 1971, at 11.00 a.m., at the Head Office of the Company.

COMPARATIVE HIGHLIGHTS

Year Ended October 31

	Tear Ended October 51			
	1970	<u>1969</u>	% Change from 1969	
Sales	\$30,035,610	\$26,841,515	+ 12	
Income before taxes	2,012,556*	3,651,404	- 45	
Income taxes	959,500	1,814,171	- 47	
Net income	1,053,056 *	1,837,233	— 43	
Earnings: Per share As a percentage of sales As a percentage of capital employed at beginning of year** As a percentage of shareholders' equity at beginning of year	.66 * 3.5º/o 6.3º/o 9.6º/o	1.15 6.8% 9.4% 18.3%	— 33	
Dividends paid to shareholders: Per share	.48 73º/o *	.48 42%	— + 74	
Capital expenditures	2,024,681	2,886,878	— 30	
Depreciation	974,720	888,797	+ 10	
Working capital	8,239,533	8,972,108	— 8	
Ratio of current assets to current liabilities	1.7 to 1	1.9 to 1	_	
Long term debt	6,312,000	6,824,123	8	
Shares outstanding: Common Class A	530,424 1,076,000	528,424 1,067,350	- + 1	
Number of shareholders	2,675	2,725	— 2	
Salaries, wages and employee benefits	7,299,279	6,391,924	+ 14	
Number of employees (average)	1,114	1,078	+ 3	
*Before extraordinary item **Capital employed represents total assets less current liabilities				

REPORT TO THE SHAREHOLDERS

Through most of 1970 the Canadian economy was operating under severe monetary and fiscal controls in an effort to stem the rapid inflation of the past few years. This brought about a curtailment of consumer spending and also resulted in a rise in unemployment.

The carpet industry along with many other consumer oriented industries felt the effect of these conditions, particularly at the retail level and this in turn had its impact on distribution and manufacturing. The decrease in retail carpet sales in the past year has been offset to some extent by an increase in the volume of commercial carpet. The net overall effect for the industry by yearend will likely be a modest reduction in dollar volume and a slight increase in yardage shipped.

The temporary slow-down in the growth rate of the carpet market intensified competitive pressures and resulted in narrower profit margins. Towards the end of the year there were signs of strengthening in the housing and durable goods demand and, while somewhat erratic, there appears to be some improvement at the retail level for carpets.

The carpet industry and your company is in an extremely strong position to move forward when more normal conditions return. The broadening of the market for carpet in both domestic and commercial fields ensures the long term growth of the industry. An example of this trend is reflected in the statistics for the United Kingdom where carpeting has moved from 43% of the total floor covering market in 1965 to 58% in 1969.

Throughout this difficult period the company maintained its leadership in the Canadian industry, consolidated and strengthened the newly formed distribution centres and carried on with the long term plan of capital expenditures to ensure the growth of the company.

The outlook for the year ahead is undoubtedly better than a year ago although there is some uncertainty as to how quickly the recovery will develop. The government is now turning its attention to reducing the unemployment level and this should result in stimulating a return to a growth pattern in the economy. We therefore look for at least a modest improvement in general business conditions and consequently a healthier environment for the carpet industry and your company.

Income

Net income for the year after income taxes was \$1,053,056 or 66¢ per share. This compares with earn-

ings last year of \$1.15 per share before the extraordinary item and 93¢ after the extraordinary item.

The net income reported includes \$252,000 or 16¢ per share in connection with grants earned under the designated area legislation for our plant in Collingwood. Up to October 31, 1970 a total of \$981,691 has been earned in grants and up to the same date \$827,116 has been either applied to offset start-up expenses or included in income consistent with our established practice.

As the three year period for qualification for grants at the Collingwood plant expired on August 31, 1970, there will be no further grants earned. The balance of \$154,575 for grants earned but not yet taken into income will be taken up over the next three years 1971 to 1973 inclusive.

Earnings as well as sales were adversely affected by the seven week strike of the Collingwood plant early in the year. The strike combined with the slow-down in the economy prevented the achievement of planned sales objectives with the result that earnings from both manufacturing and distribution were below expectations

Selling, administrative and distribution expenses were higher in 1970 due to the newly formed regional distribution centres operating for the full year compared only to the last quarter of 1969. Warehousing expenses as well as selling and administrative expenses of regional distribution centres are now included. Interest costs are up for the same reason and higher interest rates also contributed to the increase.

Dividends

Dividends of 48¢ per share were paid during the year on the same basis as the previous year. A dividend of 12¢ per share has been declared payable January 4, 1971.

Sales

Sales for the year of \$30,035,610 were up 12% over the previous year. The increase was largely contributed by accessory products which are handled by our distribution and by the additional distribution margin on regular carpets from our new distribution centres. Carpets of our own manufacture while up in physical

volume are down in value due to product mix and lower prices.

The volume of contract carpet for commercial and institutional customers was up substantially in the year. On the other hand, domestic volume was down reflecting the lower level of consumer spending and the action of retailers to liquidate inventories in view of the tight money condition which prevailed throughout most of the year.

Apart from the first quarter which was affected by the strike, the third quarter which ended July 31 was the low period in the year. Sales in the fourth quarter were up 6% over the third quarter and 5% over the fourth quarter of last year. The year ended with a comparatively strong demand and the improvement has continued in the early weeks of our new fiscal year.

In the export field, very satisfactory progress has been made in increasing our volume during 1970. As a result of our activities during the past year we anticipate a continuation of the high growth rate in the year ahead.

Advertising and sales promotion was an important part of our marketing activities with heavy emphasis on television during the year. In support of our retailers increased expenditures are planned with more promotions and sales clinics to promote the sale of our products to the ultimate consumers.

Products

While there has been a temporary slow-down in the rate of growth of the carpet market, there has been no abatement in the pace of new developments involving new fibres, production techniques and exciting styling trends. In the past year the first stage of expanding our product development facilities to include a pilot plant operation was completed. The second stage is scheduled for the coming year with the third and final stage in 1972. The pilot plant will duplicate most of the important stages of yarn and carpet manufacturing. It will permit more original and extensive research, accelerate product development and eliminate interruptions to production equipment for sampling purposes.

One of the more recent trends in domestic carpeting in keeping with the move to more casual living has been the shag texture. While shags have been represented in the Harding line for the past two years, by early 1971 there will be ten lines of shag products covering the full spectrum of shag styling to meet the needs of our customers.

With the increasing cost of carpet installation, the trend from hard surface to soft floor covering in the home and the development by the industry of products suitable for the purpose, there is now a new outlet for the industry in the do-it-yourself market. Broadloom with underpadding attached in the form of high density foam and carpet tiles are products which enable consumers with an inexpensive installation kit to carry out their own installation. In 1971 a major Harding promotion will be launched for the do-it-yourself market.

It was mentioned in our 1969 annual report that the company does not produce a needlepunch product of its own. This type of product has contributed a significant volume to the growth of the carpet market in recent years by making available an inexpensive soft floor covering. Early in 1971 the company will introduce a line of needlepunch broadloom and carpet tiles by purchasing from an outside source semi-processed products which will be finished on our own existing equipment. This will enable us to aggressively pursue this segment of the market, increase the range of products we can supply to our customers and generate additional volume for manufacturing and distribution.

The installation of our continuous dyeing plant was nearing completion at year end and will be ready for operation early in 1971. In addition to providing a substantial increase in piece dyeing capacity, the company will have a competitive advantage in this increasingly important method of dyeing carpets. The ability to dye large orders in the same batch which is especially important to the contract market, generally improved fastness of dyeing and the elimination of side to side and side to centre matching problems are some of the advantages.

During 1971 another major expansion of our facilities will be the installation of a screen printing plant. This is probably the most significant development in the industry since the introduction of the tufting machine. The printing of pattern and colour on carpets is now established in the United States and the United Kingdom and will have its impact on both the commercial and domestic market. Sales in the second half of 1971 will benefit from the addition of this process with increasing benefits in subsequent years.

In the past year further additions have been made to

our range of stock contract lines. These are primarily tufted with some woven carpets and are designed especially to fill the needs in terms of service and styling for commercial and institutional uses. In the past two years our "Titan" has been an outstanding example of this type of development and has enabled the company to increase its share of the contract market. In the past year products were added in 1/10th gauge and in 1971 we will be introducing products made on 5/64th gauge tufting machine. The trend to finer gauge takes advantage of the superior wear of nylon and polypropylene in producing a highly serviceable product at a moderate cost.

A recent and promising addition to our product line is our wall carpeting "Mural". This product was launched after extensive development work in order to comply with strict flammability standards and research to establish a method of installation. In addition to providing a decorative wall covering, "Mural" has a sound conditioning value not found in other materials. The wall covering field opens up a new market opportunity for company growth.

Distribution

As previously reported our own distribution in Ontario commenced in 1965 through the acquisition of L. & G. Floor Coverings, Ltd. Distribution was expanded August 1, 1969 on a national basis providing us with a total of six carpet distribution centres throughout the country.

Along with the acquisition of our own distribution centres came the distribution of various accessory products including underpadding which is an integral part of the carpet trade.

All segments of our industry from the retailer through the distribution, to the manufacturing have experienced a difficult year as a result of the general business conditions. Our own newly formed distribution in its first full year of operations have had to contend with these conditions in becoming established. In the light of our experience to date, a number of adjustments have been made and we feel that our new distribution centres are now in a position to make a significant contribution to our sales and earnings objectives.

The Carpet Market

In the past five years the market for soft floor coverings in Canada has doubled. The major increase has been provided by tufting which is now estimated to account for 75% of the total market. In addition during this period needlepunch has grown from less than a million yards in 1965 to approximately five million yards in 1970. The conventional woven carpets have remained about the same and as a result have lost a considerable share of the market.

Our projection for the next five years indicates an average annual rate of growth of between 9% and 10% and while this is substantial, it is below the rate of growth of the past five years.

The impetus to tufted products is being provided first through the finer gauge tufting for commercial work and to a lesser degree in the domestic market and secondly in the rapid development of printing as a means of product styling. As mentioned earlier, the use of high density foam backing for commercial work and the doit-yourself market tends to favour tufting over other types.

Man-made fibres continue to play a leading role in the face yarns used in the production of carpets. Nylon in filament form ranks first in the United States and undoubtedly holds the same position in Canada. The acrylics would be next followed by nylon yarns spun from staple. Other fibres such as polypropylene in filament and spun yarn along with polyesters are making significant and growing contributions to the fibre consumption of the industry. It is expected that the trend to finer gauge and shag styling will favour the increased use of nylon in filament and spun yarn.

The availability of new and improved fibres, textured yarns and styling yarns to produce cross-dye effects permits greater versatility and is a very important resource to the industry in developing new and improved products.

A review of the carpet market would not be complete without reference to the contract segment which includes commercial, institutional and multiple dwelling housing units where the carpet is part of the original construction. In recent years the rate of growth of this contract market has exceeded the domestic and we see this trend continuing. Precise industry data is not available for the share of the market held by contract. In the

United States this is estimated to be one-third and we might place the Canadian share slightly lower.

The introduction by the industry of wall carpeting will provide further impetus to the already high rate of growth in the contract field.

Based on the latest information, imports will show a decrease in 1970 but will continue to represent about

twelve per cent of the Canadian market.

Having established control of our own national distribution, the company is moving aggressively to anticipate the future trends of the industry to maintain its position of leadership. The major expenditures in the continuous dyeing plant and the screen printing plant could to some degree represent investments in the future but they will ensure that the company is in the forefront of these developments in Canada. The continuous updating of production equipment and the expansion of research and development facilities and staff will provide the new products which are essential if we are to serve the growing needs of our customers.

Financial Resources

Working capital at October 31, 1970 of \$8,239,533 is down \$732,575 from the previous year. The Statement of Source and Use of Funds shown on page 14 outlines the factors affecting our working capital during the past year.

Accounts receivable are up due to the increase in sales in the fourth quarter and the tight money condition which has affected collections. Reserve for doubtful accounts is believed to be adequate under the circumstances.

Inventories of \$11,273,517 are down slightly from the previous year and with the higher sales volume the turnover has improved. This aspect of our operations is receiving the close attention of management and we look for further improvements in turnover in the future.

The ratio of total assets to sales is a matter of concern to your mangement. The investment in regional distribution and the fact that 1970 sales volume did not come up to expectations has reduced this ratio. In addition the investment in the continuous dyeing plant did not commence to produce revenue in the past year. As a means of improving the earnings growth rate, efforts of management will be directed towards improving the utilization of fixed assets and increasing the turnover of accounts receivables and inventories.

Capital Expenditures

A total of \$2,024,681 was spent on capital additions and this included the continuous dyeing plant, building additions to the Brantford and Collingwood plants and an addition to the spinning plant at Collingwood to double capacity.

During the year expenditures were incurred on air and water pollution control to convert our boiler plant at Guelph from coal to gas fired, the installation of stacks at Brantford to disperse exhausts from the tufting plant and the installation of settling tanks for dye liquor at Collingwood. The company has always been conscious of its responsibilities in this area and all operations conform to acceptable standards.

Capital expenditures planned for 1971 amount to \$1,500,000 which will include the screen printing plant, additional tufting capacity and further additions to our pilot plant for product development.

Personnel

Mr. John D. Campbell who has served as your director for the past two years has been appointed by the Canadian government to the Textile Review Board. We regret the consequent loss to the company of his valued services as a director and feel confident Mr. Campbell will make an outstanding contribution to the textile industry in his new capacity.

During the past year Mr. Albert F. Klinkhammer joined the company and was appointed Vice-President, Administration. Mr. Klinkhammer brings to the company many years of experience in the textile industry in various financial and administrative capacities.

In connection with the Business Corporation Act soon to be proclaimed in the Province of Ontario, we have an audit committee which was formed in 1967 and has functioned since that time. The committee consists of non-management members of the board of directors and meets with the auditors to review reports arising from their examination of the accounts.

The average employment throughout the year was 1,114 an increase of 3% over the previous year. There are now 53 employees who have completed 25 years of service or more. Stock options were granted to 111 members of management in 1970 and this includes members of regional distribution subsidiaries as well as manufacturing plants and head office.

During the year two union contracts were renegotiated with one still outstanding at year end. In 1971 there are four additional union contracts due for renewal.

It is with a feeling of sincere appreciation that we acknowledge the contribution by the management and staff throughout the past year. As usual in more difficult times, heavier demands are placed on the staff and they have responded admirably.

Annual Meeting

The annual meeting of the company will be held at the Head Office in Brantford on February 9, 1971. We extend a welcome to shareholders to join us at which time we will report further on the progress of the company.

Respectfully submitted,

Chairman of the Board

Davidson

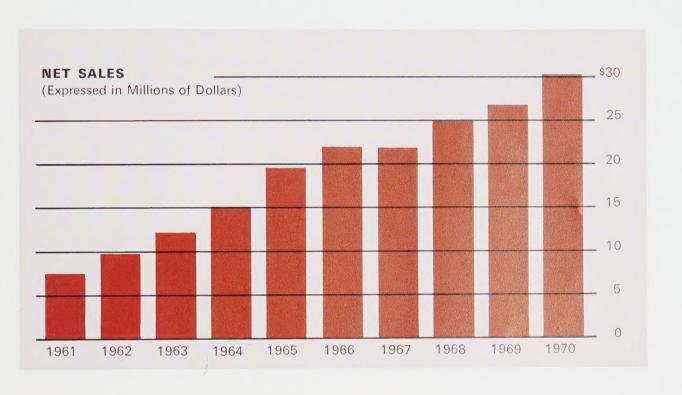
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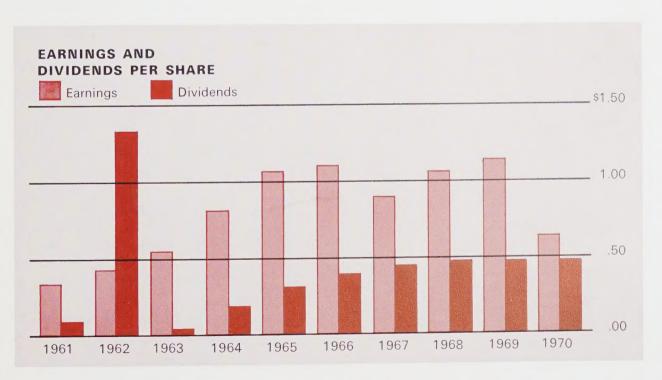
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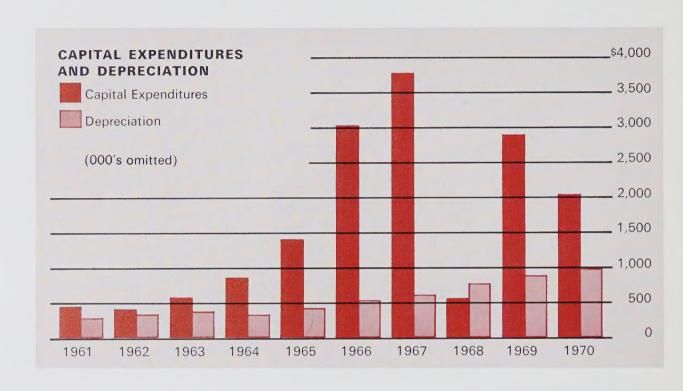
CANADIAN MARKET* (estimate)

	Total Sq. Yds.	% of total supplied by Canadian	Consumption per Household (square yards)		Canadian Per Capita Personal Disposable	
	(000's)	Mills	Canada	U.K.	U.S.A.	Income
1961	11,203	80.2	2.46	3.53	3.07	\$1,437
1962	11,736	85.8	2.49	3.70	3.66	1.535
1963	11,999	87.4	2.47	4.37	4.08	1,608
1964	15,806	87.2	3.14	5.04	4.73	1,679
1965	18,872	87.0	3.74	5.17	5.41	1,822
1966	23,525	88.4	4.54	5.23	5.94	1,973
1967	25,355	88.7	4.76	5.60	6.37	2,097
1968	30,426	87.1	5.53	6.00	7.61	2,236
1969	36,511	87.6	6.41	5.90	8.29	2,370
% Increase						
1961/69	225.9%	9.2%	160.6%	67.1%	170.0%	64.9%

^{*}Exports and automotive carpet have been excluded. Adjustments from previous reports have been made in accordance with latest available information.









CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

1970 1969 SALES..... \$30,035,610 \$26,841,515 COST OF SALES..... 22,036,322 19,402,495 GROSS PROFIT from Operations..... 7,999,288 7,439,020 LESS: Selling, Administrative and Distribution Expense 3,489,356 5.350.664 OPERATING PROFIT..... 2,648,624 3.949.664 DEDUCT (ADD): Debenture interest 423,409 453.357 464,659 60.903 Other interest..... Government Grant—Collingwood..... (252,000)2,012,556 3,651,404 959,500 1,814,171 NET INCOME before extraordinary item 1.053.056 Extraordinary item (Note 8)..... 362,249 NET INCOME for the year..... 1.053.056 1,474,984 9,017,495 8,307,330 ADD: Retained earnings at beginning of year..... 9,782,314 10,070,551 764,819 770,141 LESS: Dividends paid common and Class A shares (1970—48¢, 1969—48¢)..... \$ 9,300,410 \$ 9,017,495 \$1.15 Earnings per share before extraordinary item..... \$.66 \$.66 \$.93 Earnings per share.....

Year Ended October 31

Assets

	Octo	ber 31
	1970	<u>1969</u>
CURRENT		
Accounts Receivable, less allowance for doubtful accounts	\$ 7,146,527	\$ 6,370,319
Grant Receivable	129,048	258,814
Inventories (Note 2)	11,273,517	11,323,656
Prepaid expenses	251,351	209,804
TOTAL CURRENT ASSETS	18,800,443	18,162,593
FIXED (Note 3)		
Land, buildings and equipment at cost	19,986,721	18,069,315
Less: Accumulated depreciation	7,777,672	6,856,849
	12,209,049	11,212,466
Approved on Behalf of the Board: C. M. Harding, Director		
A. Davidson, Director		
	\$21,000,402	\$20.275.050
	\$31,009,492	\$29,375,059

Auditors' Report

TO THE SHAREHOLDERS OF HARDING CARPETS LIMITED:

We have examined the consolidated balance sheet of Harding Carpets Limited and its subsidiaries as at October 31, 1970, and the consolidated statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

CONSOLIDATED BALANCE SHEET

Liabilities

	October 31		
	1970	1969	
CURRENT	20.00		
Bank Ioan	\$ 6,240,404	\$ 5,522,667	
Accounts payable and accrued liabilities	3,769,073	2,811,388	
Income taxes payable	46,433	656,430	
Instalments on long term debt due within one year	505,000	200,000	
TOTAL CURRENT LIABILITIES	10,560,910	9,190,485	
LONG TERM DEBT (Note 4)	6,312,000	6,824,123	
DEFERRED INCOME TAXES (Note 10)	2,575,000	2,080,000	
DEFERRED INCOME (Note 5)	154,575	318 955	
SHAREHOLDERS' EQUITY Capital Stock (Note 6) Common shares without par value Non-voting Class A shares with a par value of 50¢ each Authorized Common shares — 1,000,000 shares Class A shares — 2,000,000 shares Issued and outstanding Common shares — 530,424 shares } Class A shares — 1,076,000 shares Retained earnings	2,106,597 9,300,410 11,407,007	1,944,001 9,017,495 10,961,496	
	\$31,009,492	\$29 375 059	

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1970, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO. Chartered Accountants.

Toronto, December 17, 1970

NOTES TO FINANCIAL STATEMENTS

Year ended October 31, 1970

Note 1 — CONSOLIDATION

The consolidated financial statements include the accounts of Harding Carpets Limited and its subsidiaries, all of which are wholly owned.

Note 2 — INVENTORIES

Valuation at October 31, 1970 at the lower of cost and market is consistent with previous years. Market price represents current replacement cost.

	1970	1969
Raw materials	\$ 1,110,242	\$ 1,064,976
Goods in process	2,229,604	2,343,917
Finished goods	7,933,671	7,914,763
	\$11,273,517	\$11,323,656

Note 3 — FIXED ASSETS

		1970	1969	
	Cost	Accumulated Depreciation		Accumulated Depreciation
Land Buildings Machinery &	\$ 567,871 7,847,588	\$ 1,503,889	\$ 591,844 7,492,140	\$ - 1,289,608
Equipment	11,571,262 \$19,986,721	6,273,783 \$7,777,672	9,985,331 \$18,069,315	5,567,241 \$6,856,849

Depreciation charged on the books is based on straight line rates of $2^{1}/2^{0}$ for buildings and 9^{0} for machinery and equipment. For the year ended October 31, 1970, the amount charged against income was \$974,720 (\$888,797 in 1969).

Note 4 — LONG TERM DEBT

Note 4 — LONG TERM DEBT	
Series A, 6% 1984\$3	3,300,000
The sinking fund requirements call for payments of \$200,000 a year leaving a balance of \$900,000 due in 1984.	
Series B, 6 ⁷ / ₈ ⁰ / ₀ , 1987	2,185,000
Adjustment Assistance Board Loan, 6%, 1974 The loan agreement requires semi-annual payments of \$100,000 each, the final payments being due in 1974.	574,225
8% real estate mortgage repayable in monthly instalments of principal and interest of \$2,278	

Note 5 — DEFERRED INCOME

Early in 1967, when the facilities at Collingwood were being completed, the Company was in a position to qualify for either the tax holiday available under Section 71A of the Income Tax Act or government grants under The Area Development Incentives Act. The decision was made at that time to take the government grants and to recognize such grants as elements of income generally over the four fiscal years ended October 31, 1970 which is the same period that the benefits of the tax holiday would have been available. To date, the total government grants of \$827,116 taken into income is substantially the same as the amount that would have been included in income as a result of the tax holiday although the annual amounts differ.

While the treatment afforded the government grants is not in accordance with the recent recommendations of The Canadian Institute of Chartered Accountants, it is the Company's belief that the inclusion of the government grant in income in 1970 is appropriate as a matter of consistent financial reporting. This is the last fiscal year in which any significant amounts of government grants are available.

Note 6 —EMPLOYEES' STOCK OPTIONS

Options for 2,000 common and 8,650 Class A shares were exercised during the year ended October 31, 1970, for a cash consideration of \$162,596. Options for 2,000 common and 24,250 Class A shares were granted during the year. At October 31, 1970, options on 5,576 common and 33,300 Class A shares had been granted but not exercised.

Note 7 — DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

Direct remuneration of directors and senior officers totalled \$302,000 during the year ended October 31, 1970 (\$245,500 in 1969).

Note 8 — EXTRAORDINARY ITEM — \$362,249

This represents the distribution start-up costs in 1969 including the loss of margin on inventories which would otherwise have been in the hands of former distributors less applicable income taxes of \$372,800.

Note 9 — PENSION PLAN

In 1948, the Company introduced its Employees' Pension Plan. This Plan was integrated with the Canada Pension Plan and the Quebec Pension Plan in 1966. Employees contribute 5% of their earnings to these Plans with the Company making up the balance to provide a minimum benefit of 13/4% for each year of service.

The Deferred Profit Sharing Plan was introduced in 1960. It is a trusteed plan which is paid for completely by the Company and has to date been mainly invested in the shares of Harding Carpets Limited.

Since 1948, net pension and profit sharing contributions have been as follows (including subsidiary companies):

	Company Net Contributions	Employees Net Contributions
Past service	\$ 319,461	\$ —
Employees' Pension Plan	. 1,059,498	1,311,463
Canada Pension Plan and		
Quebec Pension Plan		349,258
Deferred Profit Sharing Plan*	. 461,321	
	\$2,189,538	\$1,660,721

*(The market value of the Deferred Profit Sharing Plan fund at October 31, 1970 was \$766,374).

The cost to the Company of the Pension Plans and the Deferred Profit Sharing Plan in 1970 was \$214,912 (1969—\$173,402).

Note 10 — INCOME TAXES

252,775 \$6,312,000

Deferred income taxes arise as a result of claiming for income tax purposes maximum capital cost allowances which are in excess of depreciation recorded in the accounts. In 1970 this amounted to \$495,000 compared with \$218,000 in 1969.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	Year Ended October 31		
	1970	1969	
CURRENT ASSETS	\$18,800,443	\$18,162,593	
CURRENT LIABILITIES	10,560,910	9,190,485	
WORKING CAPITAL	\$ 8,239,533	\$ 8,972,108	
SOURCE OF FUNDS			
From Operations:			
Net income for the year	\$ 1,053,056	\$ 1,474,984	
Charges or (credits) not involving current funds:			
Depreciation	974,720	888,797	
Deferred income taxes	495,000	218,000	
Government grant	(252,000)	(216,000)	
Other non-cash items	(15,351)	(8,935)	
Total from Operations	2,255,425	2,356,846	
Government grant earned	87,620	77,362	
Proceeds from mortgage		259,898	
Issue of capital stock	162,596	217,310	
Disposal of fixed assets	68,729	3111)315	
	2,574,370	2,941,452	
USE OF FUNDS			
Expenditures on fixed assets	2,024,681	2,886,878	
Dividends paid	770,141	764,819	
Reduction in long term debt	512,123	530,775	
	3,306,945	4,182,472	
WORKING CAPITAL DECREASE	\$ 732,575	\$ 1,241,020	

10 YEAR SUMMARY OF FINANCIAL DATA

(000's omitted)

OPERATING RESULTS	1970	1969
SALES	\$30,035	\$26,842
Depreciation	975	889
Interest	888	514
Profit before income taxes	2,013	3,651
Income taxes 2	960	1,814
NET INCOME 1	\$ 1,053	\$ 1,837
Per Share 13	\$ 0.66	\$ 1.15
As a percentage of sales	3.5%	6.8%
As a percentage of capital employed at beginning of year	6.3°/o	9.4º/o
As a percentage of shareholders' equity at beginning of year	9.6°/o	18.3%
Dividends paid 4	\$ 770	\$ 765
Per preference share 5	_	
Per common and Class A share 3	\$ 0.48	\$ 0.48
RETAINED EARNINGS FOR YEAR 6	\$ 283	\$ 710
CAPITAL EXPENDITURES	\$ 2,025	\$ 2,887
OTHER FINANCIAL DATA	4 0 0 4 0	A 0.070
WORKING CAPITAL	\$ 8,240	\$ 8,972
Ratio of current assets to current liabilities	1.7 to 1	1.9 to 1
Inventories	\$11,274	\$11,324
Fixed assets (net)	\$12,209	\$11,212
Funded debt	\$ 6,312	\$ 6,824
SHAREHOLDERS' EQUITY	\$11,407	\$10,961
Shareholders' equity per share 3	\$ 7.11	\$ 6.87

In 1969 before extraordinary item less applicable income taxes.
 The earnings for the years 1965-1970 have benefited under Designated Area legislation.
 From 1965 to 1967 taxation was reduced for Harding Brantford Limited and from 1967 to 1970 grants for the plant at Collingwood were included in income.

YEAR ENDED OCTOBER 31

1968	1967	1966	1965	1964	1963	1962	1961
\$24,958	\$22,040	\$22,089	\$19,350	\$15,001	\$12,058	\$ 9,886	\$ 7,587
765	609	531	426	335	375	329	284
624	434	294	270	203	46	51	56
3,238	1,776	2,894	2,886	2,635	1,849	1,411	1,051
1,545	366	1,133	1,209	1,340	895	699	531
\$ 1,693	\$ 1,410	\$ 1,761	\$ 1,677	\$ 1,295	\$ 954	\$ 712	\$ 520
\$ 1.07	\$ 0.90	\$ 1.12	\$ 1.08	\$ 0.82	\$ 0.56	\$ 0.43	\$ 0.35
6.80/0	6.4%	8.0°/₀	8.7%	8.6%	7.9%	7.2%	6.9%
10.6%	13.6%	16.8%	18.0%	22.5%	15.1%	11.6%	8.90/0
18.8%	17.0%	25.8%	30.1%	23.80/0	17.0%	13.2%	10.3%
\$ 755	\$ 723	\$ 626	\$ 505	\$ 334	\$ 183	\$ 2,089	\$ 175
_		_		53/40/0	53/40/0	53/40/0	
\$ 0.48	\$ 0.46	\$ 0.40	\$ 0.32	\$ 0.20	\$ 0.05	\$ 1.34	\$ 0.11
\$ 938	\$ 687	\$ 1,298	\$ 1,172	\$ 961	\$ 771	\$ 517	\$ 345
\$ 566	\$ 3,777	\$ 3,045	\$ 1,402	\$ 856	\$ 572	\$ 411	\$ 440
\$10,213	\$ 8,563	\$ 6,270	\$ 7,187	\$ 6,964	\$ 3,488	\$ 3,853	\$ 3,785
3.5 to 1	2.7 to 1	2.1 to 1	3.2 to 1	4.4 to 1	2.1 to 1	3.4 to 1	4.6 to 1
\$ 8,359	\$ 7,427	\$ 6,725	\$ 5,015	\$ 4,472	\$ 3,732	\$ 3,170	\$ 2,921
\$ 9,235	\$ 9,559	\$ 6,451	\$ 3,947	\$ 2,987	\$ 2,425	\$ 2,233	\$ 2,153
\$ 7,095	\$ 7,600	\$ 4,100	\$ 4,300	\$ 4,500	\$ 740	\$ 860	\$ 980
\$10,034	\$ 8,992	\$ 8,281	\$ 6,816	\$ 5,564	\$ 5,451	\$ 5,601	\$ 5,390
\$ 6.35	\$ 5.71	\$ 5.27	\$ 4.38	\$ 3.59	\$ 2.95	\$ 2.45	\$ 3.59

Adjusted to reflect subdivision of each common share, on March 16, 1964, and each common and Class A share on February 11, 1967.
 Includes stock dividend of \$1,893,750 paid on the common shares in 1962.
 Preference shares redeemed February 17, 1964.
 For 1966 includes non-recurring profit less applicable income taxes.



Harding Carpets Limited is a Canadian company — the only publicly-owned company in the nation's carpet manufacturing industry. More than 98 per cent of its outstanding shares are owned by Canadian residents from coast-to-coast.

In its plants, of which there are three, its offices and regional distribution centres throughout Canada, the company employs 1,114 persons whose combined efforts in 1970 accomplished sales of products valued at \$30,035,610.

Modern research and development programs, the continuous search for improved manufacturing techniques and new product, all combine to maintain the company's position as the largest manufacturer in its industry.

Plant Locations

Brantford, Guelph and Collingwood, Ontario.

Regional Distribution Centres

Vancouver
Calgary
Winnipeg
Toronto
Montreal
Moncton

—4161 Canada Way, Burnaby
—3030-9th Street S.E., Calgary
—1555 Inkster Boulevard, Winnipeg
—35 Worcester Road, Rexdale
—1475 Montee de Liesse, St. Laurent
—1220 St. George Boulevard, Moncton

ON THE COVER Illustrated is Harding Carpets ARGONAUT in Orange Brick.

Innovations

In Products / In Manufacturing / In Merchandising

Harding Carpets constant efforts in development of new products, modern manufacturing methods and merchandising innovations combine to maintain the company's position as leader in the Canadian industry.

Examples of all three areas of endeavours are illustrated on these two

New products developed by the company are seen on the facing page. At top is *Motif*, a bright new printed carpet line which is seen in a kitchen setting. Printed carpet such as this will be manufactured by the company early in 1971 when its new printed carpet plant in Brantford is completed. At bottom left is *Colony Park*, a random sheer sculpted acrilan in brilliant two-tone patterned blue and green. At right is *Valhalla*, a deep pile nylon shag printed in striking blended colours. Other new products developed by the company: *Titan II*, which features a durable second generation nylon fibre carpet with anti-static properties for contract users; *Preview*, a luxurious all-wool rough textured plush; *New Generation*, a new look at hard twist acrilan in exciting two-tone colour combinations; and *Step Ahead*, a nylon quality with high-low surface textures combined with two-colour patterns.

Exciting new merchandising concepts can be expected to provide broader markets for the company's products. Of particular significance

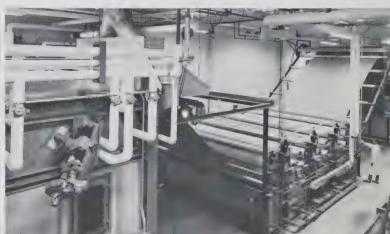
is the company's development of products for the do-it-yourself home-maker. Illustrated in the bottom centre panel of the facing page are carpet tiles which can be easily installed by the purchaser, in a variety of colour schemes. The Harding do-it-yourself program is also available to the public in standard rubber-back broadloom widths and comes complete with installation instructions, and necessary tools and essentials to properly install the carpet. Another new merchandising and product concept, not illustrated, is *Mural*, a handsome carpeting for wall installation which was introduced at the National Interior Design Show in the fall of 1970. It has received quick acceptance and provides a new dimension in decor treatment for offices, commercial institutions and homes.

Continual development of new manufacturing methods are illustrated below by the company's recently installed Kusters dyeing equipment. This huge, modern precision unit permits the company to continuously dye at a rate of up to 600 yards of carpeting an hour while maintaining perfect colour matches.

At left, carpet is prepared for the dyeing process and, at right, comes off the line ready for drying.

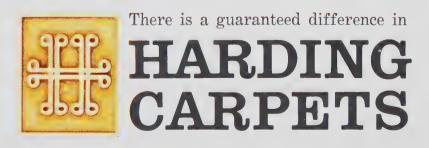
New products, new merchandising innovations and new manufacturing methods—all reflect the care and craftsmanship taken with all Harding products.











HARDING CARPETS

Semi-Annual Report April 30, 1970

TO THE SHAREHOLDERS:

Sales for the second quarter were up 27% over the same period last year while sales for the first half were up 20%. | Sales figures are not really comparable with last year as the increase is due largely to the sales of carpet accessories and the distribution mark-up on carpet sold through our newly formed distribution centres. Sales of our carpets do show a modest increase, but have been adversely affected by the seven week strike in the first quarter along with a slowdown in retail activity.

While the second quarter net income shows a substantial improvement over the first quarter, business conditions have contributed to a less favourable profit performance than last year. Planned growth has not been achieved for carpet sales and higher wages and interest costs have produced a squeeze on profits. For the six months, the net income per share of 35c is down from 57c last year.

While carpet inventories are down from the beginning of the year, accessories and allied products which we distribute, have contributed to an increase in overall inventories. Further reductions in carpet inventories will result in a lower level for total inventories by the year end.

Plans for the continuous dyeing plant are proceeding according to schedule and it is expected to be in operation by the end of the current fiscal year. The printing plant will commence operations during the first half of next year.

In our first quarter report, we stated that the retail carpet market was less buoyant than a year ago as a result of government restraints. There is every indication that this condition continues. It is encouraging that the government has not found it necessary to apply consumer credit controls as these would undoubtedly further depress sales of large ticket items such as carpet.

ON BEHALF OF THE BOARD

Cell. Harding

Chairman

President

June 11, 1970 Brantford, Ontario

CONSOLIDATED STATEMENT OF INCOME

(unaudited)

	3 months ended April 30		6 months ended April 30	
	1970	1969	1970	1969
SALES	55,358,790	86,596,288	\$15,412,712	\$12.59 5.754
COST OF SALES	0,205,514	4,810,302	11,410,509	9.441.131
GROSS PROFIT from Operations	2,153,276	1.785,986	4,001,905	3,452,722
LESS: Selling, administrative and general expense	1,531,988	761,741	2.642.472	1.494.55
OPERATING PROFIT	821,288	1, 124,245	1,359,431	1.955.11-
DEDUCT (ADD):				
Interest	220,194	119,265	429,630	241,888
Government grant - Collingwood	(63,000)	(54,000)	(126,000)	(108,)001
PROFIT before taxes on income	664,094	958,980	1.055.801	1.524,254
Taxes on income	322,000	187,201	-:91,000	914.601
NET INCOME for the period	\$ 342,094	× 171,770	\$ 564,801	909.654
Farnings per common and Class A share	216	3()5	450	57.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(unaudited)

SOURCE OF FUNDS 1970 1969 From Operations: *564,801 \$ 909,654 Charges or (credits) not involving current funds **364,802 418,628 Depreciation 468,792 418,628 Deferred income taxes 298,000 312,094 Government grant* (126,000) (108,000) Issue of capital stock 1,205,593 1,532,376 Issue of capital stock 162,596 217,310 USE OF FUNDS *** 1,368,189 1,749,686 USE OF FUNDS *** *** 408,498 125,775 Increase in of fixed assets (net) 674,668 457,142 457,142 408,498 125,775 Increase in other assets - 29,847 - 29,847 WORKING CAPITAL INCREASE (DECREASE) \$ (99,577) \$ 755,087		6 months ended April 30		
Net income for period \$ 564,801 \$ 909,654 Charges or (credits) not involving current funds 468,792 418,628 Depreciation 298,000 312,094 Government grant* (126,000) (108,000) Total from operations 1,205,593 1,532,376 Issue of capital stock 162,596 217,310 USE OF FUNDS 564,668 457,142 Expenditures on fixed assets (net) 674,668 457,142 Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets - 29,847 1,467,766 994,599	SOURCE OF FUNDS	1970	1969	
Depreciation 468,792 418,628 Deferred income taxes 298,000 312,094 Government grant* (126,000) (108,000) Total from operations 1,205,593 1,532,376 Issue of capital stock 162,596 217,310 USE OF FUNDS Expenditures on fixed assets (net) 674,668 457,142 Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets - 29,847 1,467,766 994,599	Net income for period	\$ 564,801	\$ 909,654	
Deferred income taxes 298,000 (108,000) 312,094 (126,000) 312,094 (126,000) 312,094 (126,000) (126,000) (108,000) Total from operations 1,205,593 (217,310) 1,532,376 (217,310) 1,368,189 (217,310) 1,749,686 USE OF FUNDS Expenditures on fixed assets (net) 674,668 (457,142) 457,142 384,600 (381,835) 3	Depreciation	468,792	418,628	
Total from operations 1,205,593 1,532,376 Issue of capital stock 162,596 217,310 USE OF FUNDS 1,368,189 1,749,686 Expenditures on fixed assets (net) 674,668 457,142 Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets - 29,847 1,467,766 994,599	Deferred income taxes			
Total from operations 1,205,593 1,532,376 Issue of capital stock 162,596 217,310 USE OF FUNDS 1,368,189 1,749,686 Expenditures on fixed assets (net) 674,668 457,142 Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets - 29,847 1,467,766 994,599	Government grant*	(126,000)	(108,000)	
USE OF FUNDS 1,749,686 Expenditures on fixed assets (net) 674,668 457,142 Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets — 29,847 1,467,766 994,599		1,205,593	1,532,376	
USE OF FUNDS 1,749,686 Expenditures on fixed assets (net) 674,668 457,142 Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets — 29,847 1,467,766 994,599	Issue of capital stock	162,596	217,310	
Expenditures on fixed assets (net) 674,668 457,142 Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets — 29,847 1,467,766 994,599				
Expenditures on fixed assets (net) 674,668 457,142 Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets — 29,847 1,467,766 994,599	USE OF FUNDS			
Dividends paid 384,600 381,835 Reduction in long term debt 408,498 125,775 Increase in other assets — 29,847 1,467,766 994,599		674,668	457,142	
Reduction in long term debt 408,498 125,775 Increase in other assets 29,847 1,467,766 994,599	Dividends paid	384,600	381,835	
Increase in other assets		408,498	125,775	
1,467,766 994,599	Increase in other assets		29,847	
WORKING CAPITAL INCREASE (DECREASE) S 755,08		1,467,766	994,599	
	WORKING CAPITAL INCREASE (DECREASE)	s (99,577)	S 755,08 ⁻	

[&]quot;The portion of the designated area grant for the Collingwood Plant which has been included in income for the period.

ETAT CONSOLIDE DE PROVENANCE ET D'EMPLOI DES FONDS

6 mois terminés le 30 avril

Looker à	(11666)	
780,227 \$	(LLS'66) \$	AUGMENTATION DU FONDS DE ROULEMENT (DIMINUTION)
665°\$66	994,764,1	
748,62	and the second	Augmentation dans les autres postes d'actif
125,775	864'804	Diminution de la dette à long terme
381,835	384,600	Dividends versés
457,142	899'749	Dépenses en immobilisations (montant net)
		EWILLOI DES FONDS
989'6\$L'I	681,866,1	
016,712	966'791	Emission de capital-actions
1,532,376	1,205,593	Total en provenance de l'exploitation
(000,801)	(156,000)	Subvention du gouvernement*
312,094	000'867	Impôts sur le revenu reportés
418,628	76L'89t	Amortissement
		Frais ou (crédits) n'affectant pas le fonds de roulement -
\$59,600 \$	108,432 \$	Découlant de l'exploitation : Profit net de la période
6961	0761	PROVENANCE DES PONDS

*Portion des subventions aux zones désignées applicable à l'usine de Collingwood qui est incluse dans les revenus de la période.

ÉTAT CONSOLIDE DU REYENU

(non vérifié)

3LS	356	308	214	Bénéfices par action ordinaire et de la classe A
\$59'606 \$	108'795 \$	6LL'1L\$ \$	\$ 342,094	PROFIT MET de la période
1,824,254	108,220,1	102,784	\$60,450 \$22,000	PROFIT avant impôts sur le revenu Impôts sur le revenu
241,888	429,630	119,265	\$61,022 (000,£3)	Déduire (Ajouter): Intérêt
1,958,142	164,626,1	1,024,245	882,128	PROFIT D'EXPLOITATION
3,452,722	4,001,903	142,137 380,287,1	886,155,1 886,156,1	PROFIT BRUT D'EXPLOITATION et frais généraux
\$12,896,754	\$15,412,712	\$82,396,288	\$8,358,790 \$12,202,8	VENTES Coût des ventes
6961	0/61	6961	0761	
terminés Avril		terminės avril		

AUX ACTIONNAIRES:

Les plans pour notre usine de teinture en piece continue de se développer selon nos prévisions et nous prévoyons commencer les péretaines d'ici la fin de la présente année fiscale. L'usine d'impression par cadre devrait être en opération au cours de la première moitié de l'an prochain.

Dans notre rapport sur le premier trimestre, nous affirmions que le marché du tapis était moins alerte qu'il y a un an par suite des restrictions gouvernementales. Tout indique que la situation n'a pas changé. Toutefois, il est encourageant de constater que le gouvernement n'a pas jugé nécessaire d'appliquer des mesures contrôlant le crédit à la consommation, car ces mesures auraient indubitablement crédit à la consommation, car ces mesures auraient indubitablement affecté les ventes d'articles de valeur importante comme les tapis,

Président

AU NOM DU CONSEIL D'ADMINISTRATION

Our Handing stollamin

Président du conseil

le 11 juin 1970 Brantford, Ontario

Les ventes du second trimestre se sont accrues de 27% comparation tivement à la même période de l'an passé, portant à 20% l'augmentation, le totale des ventes pour la première moitié de l'année. Cependant, le chiffre des ventes de l'an passé ne peut être réellement comparé à chiffre des ventes de l'an passé ne peut être réellement comparé à une bonne part, à la vente de produits accessoires au tapis ainsi qu'à la marge sur les tapis vendus par l'entremise de nos nouveaux centres de distribution. Méanmoins, les ventes de nos tapis ont marqué une pordeste augmentation, en dépit d'une grève de sept semaines durant le premier trimestre et d'un ralentissement dans le secteur de la vente au détail.

bien que le revenu net du second trimestre, les conditions générales ion sensible sur celui du premier trimestre, les conditions générales des affaires ont contribué à une diminution des profits par rapport à l'an passé. La croissance prévue na pas été atteinte dans les ventes de tapis et la hausse des salaires et des frais d'intérêts ont contribué à comprimer la marge des profits. Ainsi, pour les six derniers mois, comprimer la marge des profits. Ainsi, pour les six derniers mois, le revenu net par action est passé à 35° en regard de 57° l'an dernier.

Dien que les stocks de tapis aient diminué depuis le début de l'année, les accessoires et autres produits connexes que nous distribuons ont contribué à un accroissement général de nos stocks. A cet effet, de nouvelles réductions dans les stocks de tapis contribueront à abaisser le niveau du stock total d'ici la fin de l'année.



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